134. In the SBC/Ameritech merger case (and subsequently in the course of the FCC's review of the proposed Bell Atlantic/GTE merger in 2000), the FCC accepted the merger applicants' proposal to create a structurally separate subsidiary to provide advanced services.[136] While the FCC refrained from requiring a structural separation for the merged companies' wholesale and retail basic exchange operations, the reasoning that the FCC put forth in support of the advanced services structural separation requirement is *at least* as applicable to basic exchange service as it is to advanced services. As the FCC expressed its reasoning in the BA/GTE merger order:

> Establishing an advanced services separate affiliate will provide a structural mechanism to ensure that competing providers of advanced services receive effective, nondiscriminatory access to the facilities and services of the merged firm's incumbent LECs that are necessary to provide advanced services. Because the merged firm's own separate affiliate will use the same processes as competitors, wait in line for collocation space, buy the same inputs used to provide advanced services, and pay an equivalent price for facilities and services, the condition should ensure a level playing field between Bell Atlantic/GTE and its advanced services competitors. In this regard, the competitive safeguards will provide Bell Atlantic/GTE's competitors substantial benefits. For example, to the extent a Bell Atlantic/GTE incumbent LEC allows its separate affiliate to collocate packet switches, routers, or other equipment, the nondiscrimination safeguards compel the incumbent LEC to allow unaffiliated carriers to collocate similar equipment on nondiscriminatory rates, terms, and conditions. Similarly, if a Bell Atlantic/GTE incumbent LEC works with its separate affiliate to

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136. *Id.*, at para. 211; *In re: Application of GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, For Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License, CC Docket No. 98-184*, Memorandum Opinion and Order ("*Bell Atlantic/GTE Merger Order*"), 15 FCC Rcd 14032, 14143 (para. 247).

> develop new systems, products, or company-wide standards, it must cooperate with unaffiliated carriers in the same way.[137]

135. Clearly, the same logic expressed here by the FCC applies with equal force to support a structural separation remedy to similarly protect competitors attempting to provide basic local exchange services. The basic problem of potential discrimination is *exactly the same* for basic local exchange services as it is for advanced services. This inescapable conclusion was expressed by the FCC in the BA/GTE Merger Order in its analysis of the market for basic ("circuit-switched") local exchange services:

> Because incumbent LECs compete with competitive LECs for the provision of retail local exchange services, incumbent LECs have the incentive to discriminate against competitive LECs that depend on the incumbents' inputs (such as interconnection and UNEs) to compete.
>
> *We find that a discriminatory interconnection policy will be profitable for an incumbent LEC insofar as its revenue gains in the provision of retail local exchange services exceed whatever revenues it forgoes from wholesale interconnection with rivals.*[138]

136. It follows, then, that if a structural separation remedy is applied to SBC-Pacific's basic local exchange services, it will establish the same type of "level playing field" that the FCC expected that the structural separation solution would create when it was applied to the advanced services market. SBC-Pacific's retail services affiliate "will use the same processes

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137. *Bell Atlantic/GTE Merger Order*, at para. 261

138. *Id.*, at para. 201 (footnotes omitted, emphasis supplied). *See* also the parallel finding made by the FCC at para. 238 of the *SBC/Ameritech Merger Order*.

as competitors, wait in line for collocation space, buy the same inputs used to provide advanced services, and pay an equivalent price for facilities and services" in order to furnish basic local exchange services.

137. The only permanent and effective solution that will put an end to the pervasive discrimination that CLCs confront in their dealings with SBC-Pacific is to abandon "separate but equal" and replace it with a policy of full structural separation. There is simply no practical means by which this Commission or the FCC can assure that the provisions of Sections 251/252 and 271, and of 709.2(c), will be complied with on an ongoing basis once SBC-Pacific has attained its long distance entry objective in the absence of structural separation.

**Discriminatory conduct by SBC-Pacific is real, widespread, and not subject to effective control by any other remedy, and therefore the Commission should impose structural separation of the Company's retail and wholesale operations as the only viable solution.**

138. In his Declaration on behalf of Pac-West Telecomm, Mr. Sprague addresses numerous operational difficulties that CLCs in California have encountered in attempting to interconnect with and/or obtain services from SBC-Pacific.

139. SBC-Pacific cannot fully satisfy the nondiscrimination requirements of the Section 271 Competitive Checklist unless a structural separation remedy has been established. As each of those examples illustrate, in the absence of structural separation, the boundaries between the Company's wholesale services operations and its retail services operations are

simply too permeable to avoid situations in which the terms and conditions of the Company's wholesale offerings will be distorted by the Company's overriding retailing objectives into forms that disserve and unreasonably discriminate against retail competitors. Accordingly, structural separation of SBC-Pacific's wholesale and retail operations is the only viable course to promote an open local exchange market in California, and the Commission should conclude perforce that the Company will be unable to demonstrate compliance with the Competitive Checklist unless and until structural separation has been fully and irreversibly implemented by SBC-Pacific.

**Although achieving parity in treatment for CLCs is theoretically possible without structural separation, the utter lack of success that has been realized thus far in accomplishing this goal requires that structural remedies be afforded serious consideration at this time.**

140. In theory SBC-Pacific could certainly design and operate its various systems so as to provide full parity access even under its existing integrated operation. However, repeated and concerted efforts by CLCs to achieve such parity treatment has thus far failed to bear fruit. Structural separation, under which SBC-Pacific's own retailing operations would become "just another CLC" from the perspective of SBC-Pacific's wholesale network business, would achieve the kind of parity treatment that has thus far been elusive.

141. As informative as the example of the Bell System breakup is, I would note that the kind of formal structural separation discussed here is still far short of the kind of structural remedy adopted for the former Bell System. Full structural separation can only be achieved

through outright divestiture — the actual separation of these two segments of SBC-Pacific's integrated operation into distinct *and nonaffiliated* corporate entities. Formal structural separation explored here entails the creation of separate wholesale and retail corporate entities that would both remain squarely under the same SBC corporate umbrella. This recommendation thus falls far short of the approach adopted when the former Bell System was broken up in 1984.

142. It may be possible that something short of the formation of two separate corporate units within the SBC-Pacific structure might accomplish essentially the same outcome, albeit perhaps requiring greater direct involvement and monitoring by the Commission than under the separate corporate unit approach. Whether the increased regulatory demands that would be placed upon the Commission under a less-than-fully-separate wholesale/retail restructuring would justify this solution over formal structural separation is, of course, something that has yet to be determined.

143. The most effective approach would clearly be outright divestiture and full separation of the monopoly and competitive business units — the method that was adopted and successfully applied when the former Bell System was split into separate local and long distance corporations. The formation of separate operating companies within the SBC corporate structure offers the benefit of relatively simple and straightforward monitoring, but in the end is still subject to capital, personnel and other resource allocation decisions that will be made at the parent company level, presumably with the goal of maximizing joint profits

rather than specifically aimed at achieving true parity. As I have previously discussed and as the various SBC-Pacific marketing scripts and training materials confirm, the nominal existence of "separate" local and long distance affiliates within the SBC corporate family, as expressly required by Section 272(a) of TA96, is not by itself sufficient to foreclose or prevent self-dealing and anticompetitive conduct.

144. A partial approach to structural separation was adopted recently by the Pennsylvania Public Utility Commission ("PA PUC")[139] as a modification to a previous ruling that had called for the formation of separate Verizon wholesale and retail corporate entities.[140] Described as "functional/structural separation," the PA PUC's approach does not require that separate corporate units be formed, but instead imposes strict accounting safeguards and a strict "code of conduct" that would govern the interactions between Verizon-Pennsylvania's wholesale network operations and its retail operations. The code of conduct that would apply for the functional/structural separation regime is in the process of being formulated.[141] As such, it is far too early to assess whether a remedy short of full structural

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139. *Re: Structural Separation of Bell Atlantic–Pennsylvania, Inc. Retail and Wholesale Operation*, M-00001353 (April 11, 2001).

140. *Joint Petition of Nextlink Pennsylvania, Inc. et. al., P-00991648, Joint Petition of Bell Atlantic-Pennsylvania, Inc.*, P-00991649 (September 30, 1999) ("*Global Order*").

141. "The Code of Conduct rulemaking record shall be re-opened for the purpose of receiving comments and reply comments on the appropriate Code of Conduct to be applied *in light of this Commission's determination in the instant proceeding.* This shall be done on an expedited basis. Until completion of the final rulemaking in the Competitive Safeguards Proceeding, we expect Verizon to fully comply with the interim Code of Conduct set forth in the *Global Order.*" April 11, 2001 *Opinion and Order*, at 35, emphasis supplied.

separation will be capable of addressing and resolving all or even many of the conduct issues that continue to frustrate the development of effective and sustainable competition.

**Structural separation of presently integrated public utilities is gaining widespread interest both within the United States and internationally as well.**

145. Interest in and discussion of structural separation of the monopoly and competitive elements of integrated public utilities has been growing, and has in fact been adopted and implemented for a number of electric and gas utilities. Significantly, this issue was the subject of a general session at the NARUC Summer Meetings in Seattle last month.[142]

146. Of particular note is a recent report and draft recommendation issued by the Secretariat of the Organization for Economic Cooperation and Development (OECD) that was prepared by OECD's Directorate for Financial, Fiscal and Enterprise Affairs, Committee on Competition Law and Policy, issued April 10, 2001.[143] A copy of the OECD report and draft recommendation, along with other materials addressing the structural separation issue, is provided as Attachment 7 to this declaration.

142. CompTel, *Structural Incentives: The Simpler, More Efficient Path to Local Competition*, presented at NARUC Summer Meetings, Seattle, Washington, July 2001.

143. *Structural Separation in Regulated Industries: Report by the Secretariat*, Organization for Economic Cooperation and Development, Committee on Competition Law and Policy, April 10, 2001, OECD Document DAFFE/CLP(2001)11.

147. The OECD report groups regulatory approaches as either "structural" or "behavioral." In structural approaches, regulatory action primarily addresses the *incentives* on the incumbent to restrict competition. Structural approaches most often entail vertical separation of the competitive and noncompetitive aspects of a utility. By separating the financial interests of the competitive and noncompetitive components, structural approaches remove a noncompetitive component's financial incentives to stifle competitive development and growth.

148. In contrast, telecommunications regulation in the United States often focuses on behavioral approaches. These primarily control the *ability* of the incumbent to restrict competition, usually by dictating the terms and conditions of competitor access to noncompetitive components. Sections 251/252 and 271/272 of the *Telecommunications Act of 1996* are examples of behavior-oriented access regulation. The OECD report finds that behavioral and structural approaches are not equally effective. Access regulation is easiest and most efficient when capacity and costs of the non-regulated industry are easy to observe. However, the OECD report cites problems with even the best-case scenario form of access regulation:

> The primary problem with behavioral approaches is that the regulator must struggle against the incentives of the incumbent firm to find ways to restrict competition. The incumbent firm can use all the tools at its disposal, whether legal, technical or economic to delay, to lower the quality or raise the price of access. A well-resourced regulator, through persistence and vigilance, could hope to limit the anti-competitive activity of the incumbent, but the outcome is unlikely to be as much competition as would arise in the absence of the incentive to restrict competition. Potential entrants, fearing the effects of

> discrimination, despite the best efforts of the regulator, may hesitate to invest in the new capacity.[144]

Even when access regulation is enacted in conjunction with certain policy approaches, such as account separation, management separation or corporate separation (i.e., creating a separate affiliate), the approach still ignores the incentive of the incumbent to restrict competition. Without perfect information and an ideal regulatory environment, this incentive still translates into the will and ability of the incumbent to restrict competition.[145] Specifically, OECD notes that "in the US telecommunications industry, empirical research has found that access agreements were reached more quickly, access negotiations more likely to be successful and the level of entry higher in regions served by vertically-separated companies."[146] And the Bell System break-up is not the only example of the kind of structural remedy at issue here; indeed, the OECD report notes a precedent that is directly on point to the present discussion:

> In November 2000, British Telecom announced a restructuring plan under which it would voluntarily separate its network operations and maintenance from the other parts of its business — retail telephone, broadband, mobile and Internet services. It is planned that 25% of the network company ("NetCo") would be separately listed and traded on stock exchanges. The CEO of BT, Sir Peter Bonfield, made it clear in announcing this move that it was, in part, a response to regulation: "In my view, the creation of NetCo (a fully separate company) should reduce the need for those aspects of regulations where derive from out current vertically-integrated structure."[147]

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144. *Id.*, at 48.

145. *Id.*, at 49.

146. *Id.*, at 48.

147. *Id.*, at 44.

149. Structural separation of the monopoly and competitive activities of regulated public utilities such as SBC-Pacific is a policy concept whose time has come. In considering this proposal here, the Commission should recognize that the failure of meaningful and effective competition to develop in the California local services market despite years of regulatory attention and billions of dollars of investment may well be due largely to the insurmountable barriers that perpetuation of the existing integrated ILEC have created. Whatever solution the Commission ultimately adopts, it should keep the overarching goal of a competitive local telecommunications market squarely at the center of its policy focus.

**Conclusion**

150. Given the persistently slow pace at which local competition in California has been able to develop under the existing *integrated* operation of SBC-Pacific, together with the enormous marketing advantages that SBC-Pacific will acquire in selling its long distance services to what are essentially captive residential and small business subscribers, allowing SBC-Pacific into the long distance market at this time is decidedly inconsistent with the public interest. SBC-Pacific can and, as the experience in Texas amply confirms, will use its dominance of the local market to preemptively sell its long distance services to inbound customers, and even with minimal marketing and advertising generally can be expected to rapidly increase its share of the California long distance market to the point of substantial market dominance. Rather than increasing competition in long distance services as the Company contends will arise as a result of its entry, market concentration will grow, competition will suffer, and prices to consumers will inevitably rise.

The foregoing statements are true and correct to the best of my knowledge, information and belief.

Lee L. Selwyn

# Attachment 1:

# Statement of Qualifications

# Statement of Qualifications

## DR. LEE L. SELWYN

Dr. Lee L. Selwyn has been actively involved in the telecommunications field for more than twenty-five years, and is an internationally recognized authority on telecommunications regulation, economics and public policy. Dr. Selwyn founded the firm of Economics and Technology, Inc. in 1972, and has served as its President since that date. He received his Ph.D. degree from the Alfred P. Sloan School of Management at the Massachusetts Institute of Technology. He also holds a Master of Science degree in Industrial Management from MIT and a Bachelor of Arts degree with honors in Economics from Queens College of the City University of New York.

Dr. Selwyn has testified as an expert on rate design, service cost analysis, form of regulation, and other telecommunications policy issues in telecommunications regulatory proceedings before some forty state commissions, the Federal Communications Commission and the Canadian Radio-television and Telecommunications Commission, among others. He has appeared as a witness on behalf of commercial organizations, non-profit institutions, as well as local, state and federal government authorities responsible for telecommunications regulation and consumer advocacy.

He has served or is now serving as a consultant to numerous state utilities commissions including those in Arizona, Minnesota, Kansas, Kentucky, the District of Columbia, Connecticut, California, Delaware, Maine, Massachusetts, New Hampshire, Vermont, New Mexico, Wisconsin and Washington State, the Office of Telecommunications Policy (Executive Office of the President), the National Telecommunications and Information Administration, the Federal Communications Commission, the Canadian Radio-television and Telecommunications Commission, the United Kingdom Office of Telecommunications, and the Secretaria de Comunicaciones y Transportes of the Republic of Mexico. He has also served as an advisor on telecommunications regulatory matters to the International Communications Association and the Ad Hoc Telecommunications Users Committee, as well as to a number of major corporate telecommunications users, information services providers, paging and cellular carriers, and specialized access services carriers.

Dr. Selwyn has presented testimony as an invited witness before the U.S. House of Representatives Subcommittee on Telecommunications, Consumer Protection and Finance and before the U.S. Senate Judiciary Committee, on subjects dealing with restructuring and deregulation of portions of the telecommunications industry.

In 1970, he was awarded a Post-Doctoral Research Grant in Public Utility Economics under a program sponsored by the American Telephone and Telegraph Company, to conduct research on the economic effects of telephone rate structures upon the computer time sharing

industry. This work was conducted at Harvard University's Program on Technology and Society, where he was appointed as a Research Associate. Dr. Selwyn was also a member of the faculty at the College of Business Administration at Boston University from 1968 until 1973, where he taught courses in economics, finance and management information systems.

Dr. Selwyn has published numerous papers and articles in professional and trade journals on the subject of telecommunications service regulation, cost methodology, rate design and pricing policy. These have included:

"Taxes, Corporate Financial Policy and Return to Investors"
*National Tax Journal*, Vol. XX, No.4, December 1967.

"Pricing Telephone Terminal Equipment Under Competition"
*Public Utilities Fortnightly*, December 8, 1977.

"Deregulation, Competition, and Regulatory Responsibility in the Telecommunications Industry"
*Presented at the 1979 Rate Symposium on Problems of Regulated Industries - Sponsored by: The American University, Foster Associates, Inc., Missouri Public Service Commission, University of Missouri-Columbia*, Kansas City, MO, February 11 - 14, 1979.

"Sifting Out the Economic Costs of Terminal Equipment Services"
*Telephone Engineer and Management*, October 15, 1979.

"Usage-Sensitive Pricing" (with G. F. Borton)
(a three part series)
*Telephony*, January 7, 28, February 11, 1980.

"Perspectives on Usage-Sensitive Pricing"
*Public Utilities Fortnightly*, May 7, 1981.

"Diversification, Deregulation, and Increased Uncertainty in the Public Utility Industries"
*Comments Presented at the Thirteenth Annual Conference of the Institute of Public Utilities*, Williamsburg, VA - December 14 - 16, 1981.

"Local Telephone Pricing: Is There a Better Way?; The Costs of LMS Exceed its Benefits: a Report on Recent U.S. Experience."
*Proceedings of a conference held at Montreal, Quebec - Sponsored by Canadian Radio-Television and Telecommunications Commission and The Centre for the Study of Regulated Industries, McGill University*, May 2 - 4, 1984.

"Long-Run Regulation of AT&T: A Key Element of A Competitive Telecommunications Policy"
*Telematics*, August 1984.

"Is Equal Access an Adequate Justification for Removing Restrictions on BOC Diversification?"
*Presented at the Institute of Public Utilities Eighteenth Annual Conference*, Williamsburg, VA - December 8 - 10, 1986.

"Market Power and Competition Under an Equal Access Environment"
*Presented at the Sixteenth Annual Conference, "Impact of Deregulation and Market Forces on Public Utilities: The Future Role of Regulation"*
*Institute of Public Utilities, Michigan State University*, Williamsburg, VA - December 3 - 5, 1987.

"Contestable Markets: Theory vs. Fact"
*Presented at the Conference on Current Issues in Telephone Regulations: Dominance and Cost Allocation in Interexchange Markets - Center for Legal and Regulatory Studies Department of Management Science and Information Systems - Graduate School of Business, University of Texas at Austin*, October 5, 1987.

"The Sources and Exercise of Market Power in the Market for Interexchange Telecommunications Services"
*Presented at the Nineteenth Annual Conference - "Alternatives to Traditional Regulation: Options for Reform" - Institute of Public Utilities, Michigan State University*, Williamsburg, VA, December, 1987.

"Assessing Market Power and Competition in The Telecommunications Industry: Toward an Empirical Foundation for Regulatory Reform"
*Federal Communications Law Journal*, Vol. 40 Num. 2, April 1988.

"A Perspective on Price Caps as a Substitute for Traditional Revenue Requirements Regulation"
*Presented at the Twentieth Annual Conference - "New Regulatory Concepts, Issues and Controversies" - Institute of Public Utilities, Michigan State University*, Williamsburg, VA, December, 1988.

"The Sustainability of Competition in Light of New Technologies" (with D. N. Townsend and P. D. Kravtin)
*Presented at the Twentieth Annual Conference - Institute of Public Utilities Michigan State University*, Williamsburg, VA, December, 1988.

"Adapting Telecom Regulation to Industry Change: Promoting Development Without Compromising Ratepayer Protection" (with S. C. Lundquist)
*IEEE Communications Magazine*, January, 1989.

"The Role of Cost Based Pricing of Telecommunications Services in the Age of Technology and Competition"
*Presented at National Regulatory Research Institute Conference*, Seattle, July 20, 1990.

"A Public Good/Private Good Framework for Identifying POTS Objectives for the Public Switched Network" (with Patricia D. Kravtin and Paul S. Keller)
Columbus, Ohio: *National Regulatory Research Institute*, September 1991.

"Telecommunications Regulation and Infrastructure Development: Alternative Models for the Public/Private Partnership"
*Prepared for the Economic Symposium of the International Telecommunications Union Europe Telecom '92 Conference, Budapest, Hungary,* October 15, 1992.

"Efficient Infrastructure Development and the Local Telephone Company's Role in Competitive Industry Environment" *Presented at the Twenty-Fourth Annual Conference, Institute of Public Utilities, Graduate School of Business, Michigan State University, "Shifting Boundaries between Regulation and Competition in Telecommunications and Energy"*, Williamsburg, VA, December 1992.

"Measurement of Telecommunications Productivity: Methods, Applications and Limitations" (with Françoise M. Clottes)
*Presented at Organisation for Economic Cooperation and Development, Working Party on Telecommunication and Information Services Policies, '93 Conference "Defining Performance Indicators for Competitive Telecommunications Markets", Paris, France,* February 8-9, 1993.

"Telecommunications Investment and Economic Development: Achieving efficiency and balance among competing public policy and stakeholder interests"
*Presented at the 105th Annual Convention and Regulatory Symposium, National Association of Regulatory Utility Commissioners, New York,* November 18, 1993.

"The Potential for Competition in the Market for Local Telephone Services" (with David N. Townsend and Paul S. Keller)
*Presented at the Organization for Economic Cooperation and Development Workshop on Telecommunication Infrastructure Competition*, December 6-7, 1993.

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," *Utilities Policy*, Vol. 4, No. 1, January 1994.

*The Enduring Local Bottleneck: Monopoly Power and the Local Exchange Carriers,* (with Susan M. Gately, et al) a report prepared by ETI and Hatfield Associates, Inc. for AT&T, MCI and CompTel, February 1994.

*Commercially Feasible Resale of Local Telecommunications Services: An Essential Step in the Transition to Effective Local Competition,* (Susan M. Gately, et al) a report prepared by ETI for AT&T, July 1995.

"Efficient Public Investment in Telecommunications Infrastructure" *Land Economics*, Vol 71, No.3, August 1995.

*Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service Environment,* Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shepheard, A Time Warner Communications Policy White Paper, September 1995.

*Stranded Investment and the New Regulatory Bargain*, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shepheard, A Time Warner Communications Policy White Paper, September 1995

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," in *Networks, Infrastructure, and the New Task for Regulation*, by Werner Sichel and Donal L. Alexander, eds., University of Michigan Press, 1996.

*Establishing Effective Local Exchange Competition: A Recommended Approach Based Upon an Analysis of the United States Experience,* Lee L. Selwyn, paper prepared for the Canadian Cable Television Association and filed as evidence in Telecom Public Notice CRTC 95-96, Local Interconnection and Network Component, January 26, 1996.

*The Cost of Universal Service, A Critical Assessment of the Benchmark Cost Model,* Susan M. Baldwin with Lee L. Selwyn, a report prepared by Economics and Technology, Inc. on behalf of the National Cable Television Association and submitted with Comments in FCC Docket No. CC-96-45, April 1996.

*Economic Considerations in the Evaluation of Alternative Digital Television Proposals*, Lee L. Selwyn (as Economic Consultant), paper prepared for the Computer Industry Coalition on Advanced Television Service, filed with comments in FCC MM Docket No. 87-268, In the Matter of Advanced Television Systems and Their Impact Upon the Existing Television Broadcast Service, July 11, 1996.

*Assessing Incumbent LEC Claims to Special Revenue Recovery Mechanisms: Revenue opportunities, market assessments, and further empirical analysis of the "Gap" between embedded and forward-looking costs*, Patricia D. Kravtin and Lee L. Selwyn, In the Matter of Access Charge Reform, in CC Docket No. 96-262, January 29, 1997.

*The Use of Forward-Looking Economic Cost Proxy Models*, Susan M. Baldwin and Lee L. Selwyn, Economics and Technology, Inc., February 1997.

*The Effect of Internet Use On The Nation's Telephone Network*, Lee L. Selwyn and Joseph W. Laszlo, a report prepared for the Internet Access Coalition, July 22, 1997.

*Regulatory Treatment of ILEC Operations Support Systems Costs*, Lee L. Selwyn, Economics and Technology, Inc., September 1997.

*The "Connecticut Experience" with Telecommunications Competition: A Case in Getting it Wrong*, Lee L. Selwyn, Helen E. Golding and Susan M. Gately, Economics and Technology, Inc., February 1998.

*Where Have All The Numbers Gone?: Long-term Area Code Relief Policies and the Need for Short-term Reform,* prepared by Economics and Technology, Inc. for the Ad Hoc Telecommunications Users Committee, International Communications Association, March 1998.

*Broken Promises: A Review of Bell Atlantic-Pennsylvania's Performance Under Chapter 30*, Lee L. Selwyn, Sonia N. Jorge and Patricia D. Kravtin, Economics and Technology, Inc., June 1998.

*Building A Broadband America: The Competitive Keys to the Future of the Internet*, Lee L. Selwyn, Patricia D. Kravtin and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, May 1999.

*Bringing Broadband to Rural America: Investment and Innovation In the Wake of the Telecom Act*, Lee L. Selwyn, Scott C. Lundquist and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, September 1999.

Dr. Selwyn has been an invited speaker at numerous seminars and conferences on telecommunications regulation and policy, including meetings and workshops sponsored by the National Telecommunications and Information Administration, the National Association of Regulatory Utility Commissioners, the U.S. General Services Administration, the Institute of Public Utilities at Michigan State University, the National Regulatory Research Institute at Ohio State University, the Harvard University Program on Information Resources Policy, the Columbia University Institute for Tele-Information, the International Communications Association, the Tele-Communications Association, the Western Conference of Public Service Commissioners, at the New England, Mid-America, Southern and Western regional PUC/PSC conferences, as well as at numerous conferences and workshops sponsored by individual regulatory agencies.

**Previous appearances before the California Public Utilities Commission**

Dr. Selwyn has participated in numerous California PUC proceedings dating back to the mid-1970s. These have included Pacific Telephone general rate case Applications 55492, 58223, 59849, 83-01-022 and 85-01-034; the Commission's generic Centrex rate and cost inquiry, Case 10191; the Commission's Service Cost investimation, I.83-02-01, regarding policy development for intrastate exchange access charges and competition; at the Commission's *en banc* hearings on intra- and interLATA telecommunications policy in November, 1984; in the revenue requirements, rate design, and modernization and utilization phases of A.85-01-034; in the GTE Mobilnet proceeding, A.83-07-04; in I.87-11-031 dealing with the TRS surcharge; in the Los Angeles area ZUM Expansion proceeding (A.87-01-002/I.87-02-025); and in A.90-11-011 involving so-called CLASS and Caller ID services.

Dr. Selwyn participated in all phases of the Commission's *New Regulatory Frameworks* (NRF) investigation, I.87-11-033, beginning with written comments submitted in response to the Commission's August 11, 1987 Notice of *En Banc* Hearing on Competition and Regulatory Reform. He participated in the settlement workshops in Phase I, and submitted testimony in Phase II, Phase III, the "Touch Tone/ELCA" phase, and in the Implementation and Rate Design (IRD) phase. He also submitted testimony in the first and second triennial reviews of the New Regulatory Framework, A.92-05-002/004 and I.95-05-047, respecively.

Dr. Selwyn has testified in several CPUC proceedings addressing efforts by Pacific Bell to enter or otherwise pursue strategic initiatives in new telecommunications markets. In 1993, he appeared as a witness for the Commission's Division of Ratepayer Advocates (DRA) in the PacTel cellular/wireless "spin-off" investigation, I.93-02-028. He was an invited speaker at the Commission's *en banc* hearings on infrastructure issues in July, 1993. He also participated in several proceedings involving the Pacific Bell Information Services Group and Pacific Bell Information Services issues, A.88-08-031, Pacific's proposal to offer an enhanced (information) services "gateway," in A.92-12-052, in which Pacific sought separate subsidiary status for its

# Attachment 2:

# SBC-Pacific responses to Pac-West and Working Assets data requests

ECONOMICS AND TECHNOLOGY, INC.

voice mail business under the name "Pacific Bell Information Services," and A.93-11-031, which was to authorize PBIS to enter the so-called "electronic publishing" business on a "below the line basis." In September, 1996, Dr. Selwyn submitted testimony on behalf of the Commission's Office of Ratepayer Advocates (ORA) in A.96-04-038, the Joint Application of Pacific Telesis Group and SBC Communications Inc. for approval of the takeover by SBC of Pacific Telesis. He also submitted testimony on behalf of ORA in A.98-12-005, GTE/Bell Atlantic merger proceeding. Also on behalf of ORA, Dr. Selwyn presented testimony in A.97-12-020, the 1997 PG&E general rate case, regarding alternative forms of regulation for PG&E.

Dr. Selwyn has offered testimony in three phases of R.93-04-003/I.93-04-002, the Commission's Investigation and Rulemaking on Open Access and Network Architecture Development (OANAD). His most recent involvement in that proceeding was the filing of direct and rebuttal testimony, on April 8 and 27, 1998, on behalf of AT&T and MCI concerning the pricing of incumbent Local Exchange Carrier unbundled network elements. On April 30, he submitted an affidavit on behalf of AT&T in the Commission's proceeding to consider Pacific Bell's Notice of Intent to seek authority to offer long distance services pursuant to Section 271 of the *Telecommunications Act of 1996.* In previous phases of R.93-04-003/I.93-04-002, Dr. Selwyn testified on behalf of AT&T and MCI on the pricing of wholesale basic telephone services. On December 20, 1995, he submitted testimony on behalf of the California Telecommunications Coalition addressing the financial impacts of local competition upon Pacific Bell and other incumbent LECs in the Franchise Impacts phase of in R.95-04-043/I.95-04-044, the Commission's local competition investigation and rulemaking. On October 3, 1997, Dr. Selwyn prefiled direct testimony presenting the results of an Avoided Retailing Cost analysis giving effect to Section 252(d)(3) of the *Telecommunications Act of 1996* as it relates to resale of incumbent local exchange carrier services, and offering recommendations concerning the level of wholesale/retail differential or "discount" that should be applied in setting prices for wholesale basic services furnished to resellers.

In April of 1996, Dr. Selwyn submitted opening and rebuttal testimony on behalf of AT&T and MCI in the Commission's Universal Service Funding (USF) proceeding, R.95-01-020/I.95-01-021, and in June, 1996, he submitted testimony in the Open Access and Network Architecture Development (OANAD) proceeding, R.93-04-033/I.93-04-022, also on behalf of AT&T and MCI. In August of 1996, he submitted testimony on behalf of AT&T Communications of California, Inc. in two arbitration proceedings, A.96-08-040 (Pacific Bell) and A.96-08-041 (GTE-California).

# Attachment 3:

## PBLD marketing scripts and training materials that were produced by SBC-Pacific in response to Working Assets data request 1-1.a.

**Attachment 4:**

***Assessing SBC/Pacific's Progress in Eliminating Barriers to Entry***

**prepared by Economics and Technology, Inc. for the California Association of Competitive Telecommunications Companies (CALTEL)**

**August 2000**

ECONOMICS AND TECHNOLOGY, INC.

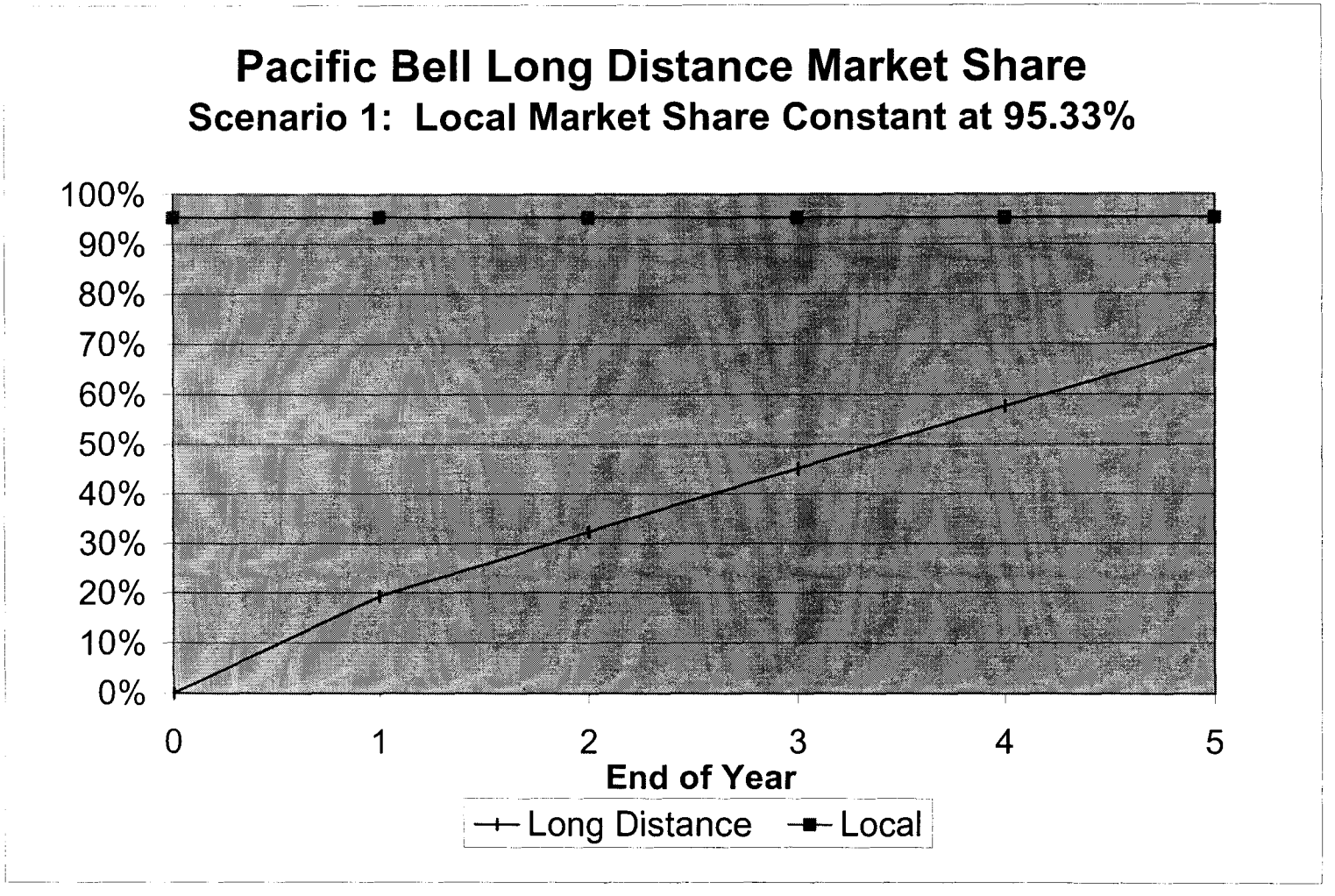
# Attachment 5:

# SBC-Texas Long Distance Promotional Materials

# Attachment 6:

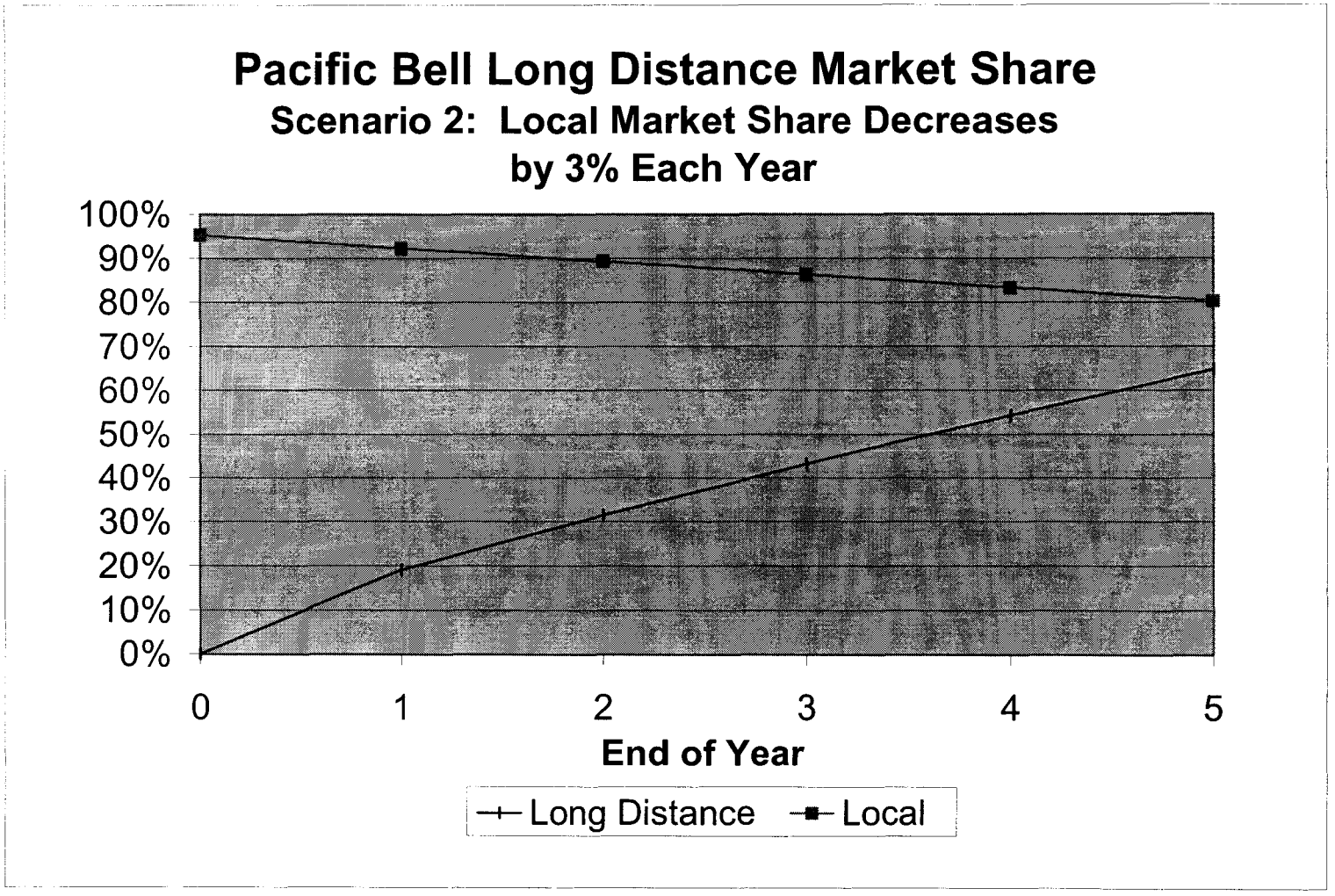
# Model of the Growth in SBC-Pacific Long Distance Market Share

ECONOMICS AND TECHNOLOGY, INC.


Pacific Bell Long Distance Market Share
Scenario 1: Local Market Share Constant at 95.33%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
0
1
2
3
4
5
End of Year
Long Distance
Local

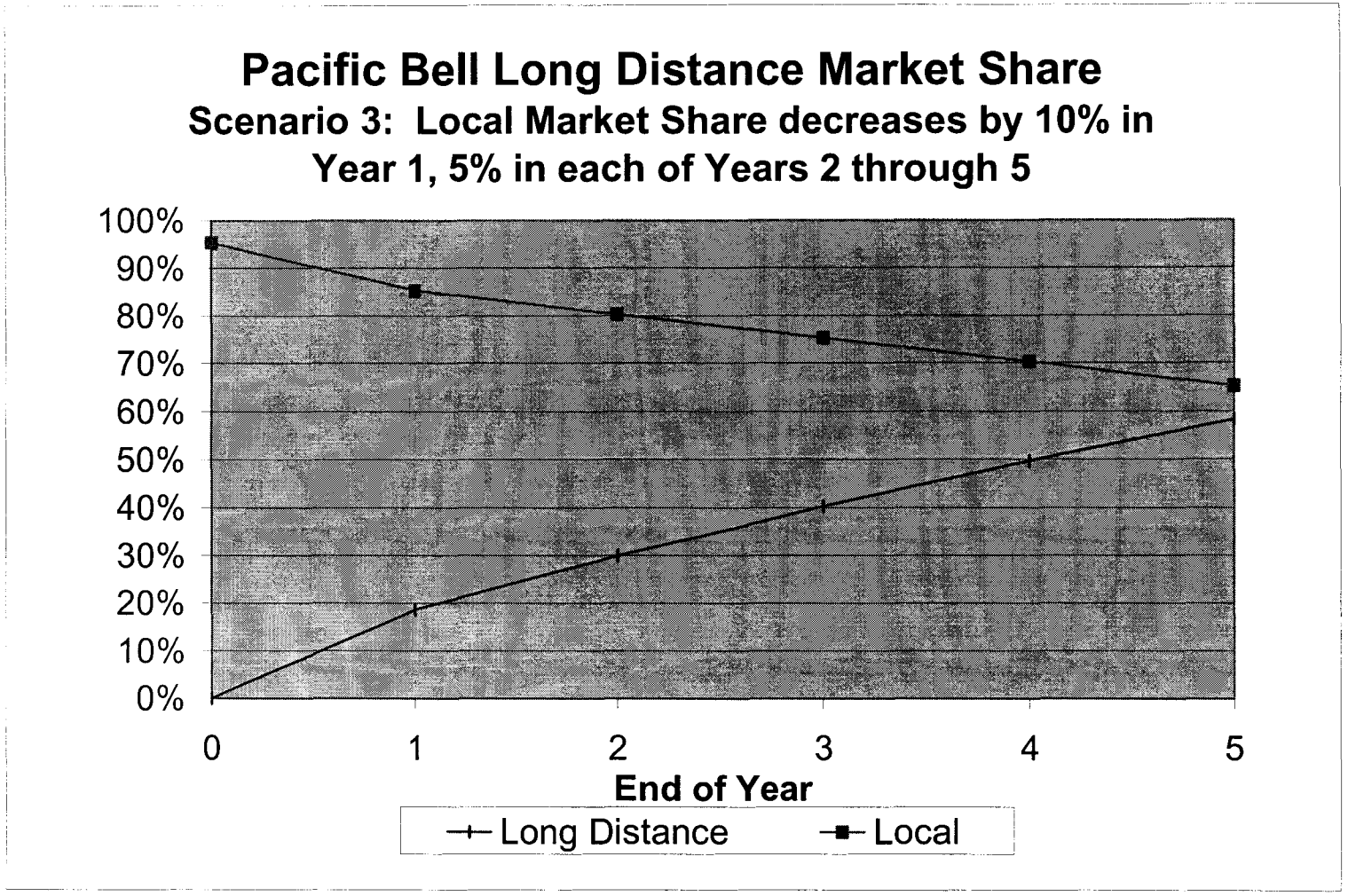
| Scenario 1 Results : Local Market Share Constant at 95.33% | | | | | | |
|---|---|---|---|---|---|---|
| | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Line** |
| Pacific Bell local market share in Pacific Bell territory, BOY | 95.33% | 95.33% | 95.33% | 95.33% | 95.33% | $l = z^{(t-1)}$ |
| Pacific Bell long distance market share in Pacifc Bell territory, BOY | 0% | 19.35% | 32.34% | 45.10% | 57.63% | $m = y^{(t-1)}$ |
| Residential lines in Pacific Bell territory (including competitive) | 11,516,665 | 11,823,008 | 12,137,500 | 12,460,358 | 12,791,803 | $n = n^{(t-1)}*f$ |
| Pacific Bell residential lines | 10,979,183 | 11,271,229 | 11,571,044 | 11,878,834 | 12,194,811 | o = l*n |
| Residential households in Pacific Bell territory (including competitive) | 8,934,573 | 9,172,233 | 9,416,214 | 9,666,686 | 9,923,820 | p = n/(1+g) |
| Pacific Bell residential households | 8,517,597 | 8,744,165 | 8,976,760 | 9,215,542 | 9,460,675 | q = o/(1+g) |
| Pacific Bell inward residential customer orders, midyear | 1,447,992 | 1,486,508 | 1,526,049 | 1,566,642 | 1,608,315 | r = h*((l+z)/2)*p |
| Inward residential customer orders where customers accept ILEC long | 1,192,464 | 1,224,183 | 1,256,746 | 1,290,176 | 1,324,495 | s = i*r |
| "PIC change" residential customers switching to ILEC | 536,074 | 532,355 | 913,627 | 1,307,971 | 1,715,757 | t = j*m*p |
| Pacific Bell long distance customers | 1,728,538 | 1,756,538 | 2,170,374 | 2,598,147 | 3,040,251 | u = s+t |
| Pacific Bell long distance customers net of current year PIC changes | 1,728,538 | 1,237,977 | 1,280,419 | 1,324,066 | 1,368,951 | $v=u-(w^{(t-1)}*j)$ |
| Pacific Bell long distance customers (cumulative) | 1,728,538 | 2,966,515 | 4,246,934 | 5,571,001 | 6,939,952 | $w=v+w^{(t-1)}$ |
| Pacific Bell residential access lines with Pacific Bell long distance | 2,228,086 | 3,823,838 | 5,474,298 | 7,181,020 | 8,945,598 | $x=w*(1+g) + x^{(t-1)}$ |
| Pacific Bell long distance market share in Pacific Bell territory, EOY | **19.35%** | **32.34%** | **45.10%** | **57.63%** | **69.93%** | y = x/n |
| Pacific Bell local market share in Pacific Bell territory, EOY | **95.33%** | **95.33%** | **95.33%** | **95.33%** | **95.33%** | z = l + e |

| Scenario 1 Inputs : Local Market Share Constant at 95.33% | | | |
|---|---|---|---|
| | **Data Value** | **Source** | **Line** |
| Pacific Bell residential lines, Year 1 | 10,979,183 | Pacific Bell residential access lines (Tebeau Affidavit, Table 5) | a |
| Competitor residential lines, Year 1 | 537,482 | Competitor residential lines (Tebeau Affidavit, Table 1; Attachment A, Item 14). | b |
| Total residential lines in Pacific Bell territory - Year 1 | 11,516,665 | | c = a + b |
| Pacific Bell residential market share in Pacific Bell territory, Year 1 | 95.33% | | d = a / c |
| Annual Growth in Pacific Bell residential market share in Pacific Bell territory | 0.00% | | e |
| Annual growth in residential lines in Pacific Bell territory | 2.66% | Average annual growth in residential access lines in CA (1997-2000 ARMIS Report 43-08: Table III) | f |
| Percentage of households with additional lines | 28.90% | FCC, Industry Analysis Division, Trends in Telephone Service, August 2001, Table 8.4. | g |
| Local residential inward movement | 17% | U.S Census Bureau, American Housing Survey for the United States in 1999, Table 2.9. | h |
| Percentage of inward residential customer orders where customers accept ILEC long distance service on the initial contact | 82.35% | Based upon Verizon - New York's end of year long distance market share (20%). | i = (.2-(j*k))/h |
| Primary Interexchange Carrier (PIC) change rate | 30% | News Release, J.D. Powers and Associates Reports: Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction, July 29, 1999. | j |
| Percentage of PIC change going to ILEC, Year 1 | 20% | Conservative estimate for year 1. In future years, the ILEC's share of PIC changes is its share of Pacific Bell's share of the long distance market. | k |


Pacific Bell Long Distance Market Share
Scenario 2: Local Market Share Decreases by 3% Each Year
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
0
1
2
3
4
5
End of Year
Long Distance
Local

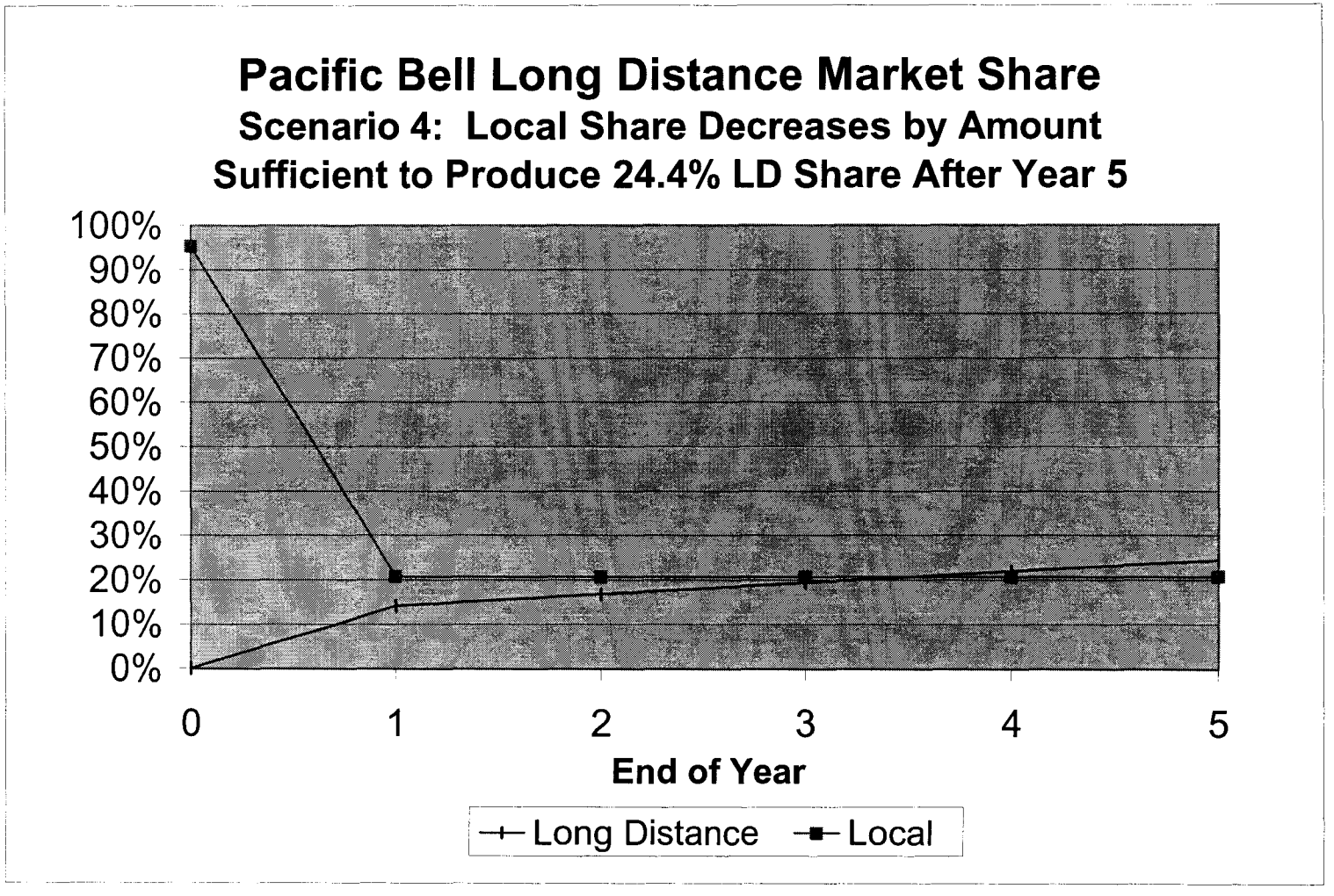
| Scenario 2 Results : Local Market Share Decreases by 3% Each Year | | | | | | |
|---|---|---|---|---|---|---|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Line |
| Pacific Bell local market share in Pacific Bell territory, BOY | 95.33% | 92.33% | 89.33% | 86.33% | 83.33% | $l = z^{(t-1)}$ |
| Pacific Bell long distance market share in Pacific Bell territory, BOY | 0% | 19.14% | 31.51% | 43.23% | 54.32% | $m = y^{(t-1)}$ |
| Residential lines in Pacific Bell territory (including competitive) | 11,516,665 | 11,823,008 | 12,137,500 | 12,460,358 | 12,791,803 | $n = n^{(t-1)} * f$ |
| Pacific Bell residential lines | 10,979,183 | 10,916,539 | 10,842,794 | 10,757,402 | 10,659,794 | o = l*n |
| Residential households in Pacific Bell territory (including competitive) | 8,934,573 | 9,172,233 | 9,416,214 | 9,666,686 | 9,923,820 | p = n/(1+g) |
| Pacific Bell residential households | 8,517,597 | 8,468,998 | 8,411,787 | 8,345,540 | 8,269,817 | q = o/(1+g) |
| Pacific Bell inward residential customer orders, mid year | 1,425,208 | 1,416,341 | 1,405,993 | 1,394,092 | 1,380,563 | r = h*((l+z)/2)*p |
| Inward residential customer orders where customers accept ILEC long distance service on the initial contact. | 1,173,701 | 1,166,398 | 1,157,876 | 1,148,076 | 1,136,934 | s = i*r |
| "PIC change" residential customers switching to ILEC | 536,074 | 526,577 | 890,006 | 1,253,711 | 1,617,300 | t = j*m*p |
| Pacific Bell long distance customers | 1,709,775 | 1,692,975 | 2,047,882 | 2,401,787 | 2,754,234 | u = s+t |
| Pacific Bell long distance customers net of current year PIC changes | 1,709,775 | 1,180,042 | 1,180,937 | 1,180,560 | 1,178,840 | $v = u - (w^{(t-1)} * j)$ |
| Pacific Bell long distance customers (cumulative) | 1,709,775 | 2,889,818 | 4,070,754 | 5,251,315 | 6,430,155 | $w = v + w^{(t-1)}$ |
| Pacific Bell residential access lines with Pacific Bell long distance | 2,203,901 | 3,724,975 | 5,247,202 | 6,768,945 | 8,288,469 | $x = w*(1+g) + x^{(t-1)}$ |
| Pacific Bell long distance market share in Pacific Bell territory, EOY | **19.14%** | **31.51%** | **43.23%** | **54.32%** | **64.80%** | y = x/n |
| Pacific Bell local market share in Pacific Bell territory, EOY | **92.33%** | **89.33%** | **86.33%** | **83.33%** | **80.33%** | z = l + e |

| Scenario 2 Inputs : Local Market Share Decreases by 3% Each Year | | | |
|---|---|---|---|
| | **Data Value** | **Source** | **Line** |
| Pacific Bell residential lines, Year 1 | 10,979,183 | Pacific Bell residential access lines (Tebeau Affidavit, Table 5) | a |
| Competitor residential lines, Year 1 | 537,482 | Competitor residential lines (Tebeau Affidavit, Table 1; Attachment A, Item 14). | b |
| Total residential lines in Pacific Bell territory - Year 1 | 11,516,665 | | c = a + b |
| Pacific Bell residential market share in Pacific Bell territory, Year 1 | 95.33% | | d = a / c |
| Annual Growth in Pacific Bell residential market share in Pacific Bell territory | **-3.00%** | | e |
| Annual growth in residential lines in Pacific Bell territory | 2.66% | Average annual growth in residential access lines in CA (1997-2000 ARMIS Report 43-08: Table III) | f |
| Percentage of households with additional lines | 28.90% | FCC, Industry Analysis Division, Trends in Telephone Service, August 2001, Table 8.4. | g |
| Local residential inward movement | 17% | U.S Census Bureau, American Housing Survey for the United States in 1999, Table 2.9. | h |
| Percentage of inward residential customer orders where customers accept ILEC long distance service on the initial contact | 82.35% | Based upon Verizon - New York's end of year long distance market share (20%). | i = (.2-(j*k))/h |
| Primary Interexchange Carrier (PIC) change rate | 30% | News Release, J.D. Powers and Associates Reports: Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction, July 29, 1999. | j |
| Percentage of PIC change going to ILEC, Year 1 | 20% | Conservative estimate for year 1. In future years, the ILEC's share of PIC changes is its share of Pacific Bell's share of the long distance market. | k |


Pacific Bell Long Distance Market Share
Scenario 3: Local Market Share decreases by 10% in Year 1, 5% in each of Years 2 through 5
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
0
1
2
3
4
5
End of Year
Long Distance
Local

| Scenario 3 Results : Local Market Share Decreases by 10% in Year 1, 5% in each of Years 2 through 5 | | | | | | |
|---|---|---|---|---|---|---|
| | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Line** |
| Pacific Bell local market share in Pacific Bell territory, BOY | 95.33% | 85.33% | 80.33% | 75.33% | 70.33% | $l = z^{(t-1)}$ |
| Pacific Bell long distance market share in Pacific Bell territory, BOY | 0% | 18.65% | 29.91% | 40.26% | 49.73% | $m = y^{(t-1)}$ |
| Residential lines in Pacific Bell territory (including competitive) | 11,516,665 | 11,823,008 | 12,137,500 | 12,460,358 | 12,791,803 | $n = n^{(t-1)}*f$ |
| Pacific Bell residential lines | 10,979,183 | 10,088,928 | 9,750,419 | 9,386,762 | 8,996,860 | o = l*n |
| Residential households in Pacific Bell territory (including competitive) | 8,934,573 | 9,172,233 | 9,416,214 | 9,666,686 | 9,923,820 | p = n/(1+g) |
| Pacific Bell residential households | 8,517,597 | 7,826,942 | 7,564,328 | 7,282,205 | 6,979,721 | q = o/(1+g) |
| Pacific Bell inward residential customer orders, mid year | 1,372,048 | 1,291,598 | 1,245,917 | 1,196,891 | 1,144,376 | r = h*((l+z)/2)*p |
| Inward residential customer orders where customers accept ILEC long distance service on the initial contact. | 1,129,922 | 1,063,669 | 1,026,049 | 985,675 | 942,428 | s = i*r |
| "PIC change" residential customers switching to ILEC | 536,074 | 513,093 | 844,777 | 1,167,521 | 1,480,406 | t = j*m*p |
| Pacific Bell long distance customers | 1,665,996 | 1,576,763 | 1,870,826 | 2,153,196 | 2,422,833 | u = s+t |
| Pacific Bell long distance customers net of current year PIC changes | 1,665,996 | 1,076,964 | 1,047,938 | 1,015,927 | 980,786 | $v=u-(w^{(t-1)}*j)$ |
| Pacific Bell long distance customers (cumulative) | 1,665,996 | 2,742,960 | 3,790,898 | 4,806,824 | 5,787,610 | $w=v+w^{(t-1)}$ |
| Pacific Bell residential access lines with Pacific Bell long distance | 2,147,469 | 3,535,675 | 4,886,467 | 6,195,997 | 7,460,230 | $x=w*(1+g) + x^{(t-1)}$ |
| Pacific Bell long distance market share in Pacific Bell territory, EOY | **18.65%** | **29.91%** | **40.26%** | **49.73%** | **58.32%** | y = x/n |
| Pacific Bell local market share in Verizon territory, EOY | **85.33%** | **80.33%** | **75.33%** | **70.33%** | **65.33%** | z = l + e |

| Scenario 3 Inputs : Local Market Share Decreases by 10% in Year 1, 5% in each of Years 2 through 5 | | | |
|---|---|---|---|
| | **Data Value** | **Source** | **Line** |
| Pacific Bell residential lines, Year 1 | 10,979,183 | Pacific Bell residential access lines (Tebeau Affidavit, Table 5) | a |
| Competitor residential lines, Year 1 | 537,482 | Competitor residential lines (Tebeau Affidavit, Table 1; Attachment A, Item 14). | b |
| Total residential lines in Pacific Bell territory - Year 1 | 11,516,665 | | c = a + b |
| Pacific Bell residential market share in Pacific Bell territory, Year 1 | 95.33% | | d = a / c |
| Annual Growth in Pacific Bell residential market share in Pacific Bell territory | -10% for year 1, -5% future years | | e |
| Annual growth in residential lines in Pacific Bell territory | 2.66% | Average annual growth in residential access lines in CA (1997-2000 ARMIS Report 43-08: Table III) | f |
| Percentage of households with additional lines | 28.90% | FCC, Industry Analysis Division, Trends in Telephone Service, August 2001, Table 8.4. | g |
| Local residential inward movement | 17% | U.S Census Bureau, American Housing Survey for the United States in 1999, Table 2.9. | h |
| Percentage of inward residential customer orders where customers accept ILEC long distance service on the initial contact | 82.35% | Based upon Verizon - New York's end of year long distance market share (20%). | i = (.2-(j*k))/h |
| Primary Interexchange Carrier (PIC) change rate | 30% | News Release, J.D. Powers and Associates Reports: Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction, July 29, 1999. | j |
| Percentage of PIC change going to ILEC, Year 1 | 20% | Conservative estimate for year 1. In future years, the ILEC's share of PIC changes is its share of Pacific Bell's share of the long distance market. | k |


Pacific Bell Long Distance Market Share
Scenario 4: Local Share Decreases by Amount Sufficient to Produce 24.4% LD Share After Year 5
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
0
1
2
3
4
5
End of Year
Long Distance
Local

| Scenario 4 Results : Local Share Decreases by Amount Sufficient to Produce 24.4% LD Share after 5 Years | | | | | | |
|---|---|---|---|---|---|---|
| | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Line** |
| Pacific Bell local market share in Pacific Bell territory, BOY | 95.33% | 20.75% | 20.75% | 20.75% | 20.75% | $l = z^{(t-1)}$ |
| Pacific Bell long distance market share in Pacific Bell territory, BOY | 0% | 14.13% | 16.77% | 19.38% | 21.93% | $m = y^{(t-1)}$ |
| Residential lines in Pacific Bell territory (including competitive) | 11,516,665 | 11,823,008 | 12,137,500 | 12,460,358 | 12,791,803 | $n = n^{(t-1)}*f$ |
| Pacific Bell residential lines | 10,979,183 | 2,453,274 | 2,518,531 | 2,585,524 | 2,654,299 | o = l*n |
| Residential households in Pacific Bell territory (including competitive) | 8,934,573 | 9,172,233 | 9,416,214 | 9,666,686 | 9,923,820 | p = n/(1+g) |
| Pacific Bell residential households | 8,517,597 | 1,903,238 | 1,953,864 | 2,005,837 | 2,059,193 | q = o/(1+g) |
| Pacific Bell inward residential customer orders, mid year | 881,579 | 323,551 | 332,157 | 340,992 | 350,063 | r = h*((l+z)/2)*p |
| Inward residential customer orders where customers accept ILEC long distance service on the initial contact. | 726,006 | 266,453 | 273,541 | 280,817 | 288,287 | s = i*r |
| "PIC change" residential customers switching to ILEC | 536,074 | 388,696 | 473,860 | 561,886 | 652,856 | t = j*m*p |
| Pacific Bell long distance customers | 1,262,081 | 655,149 | 747,401 | 842,704 | 941,143 | u = s+t |
| Pacific Bell long distance customers net of current year PIC changes | 1,262,081 | 276,525 | 285,819 | 295,376 | 305,203 | $v=u-(w^{(t-1)}*j)$ |
| Pacific Bell long distance customers (cumulative) | 1,262,081 | 1,538,606 | 1,824,425 | 2,119,801 | 2,425,004 | $w=v+w^{(t-1)}$ |
| Pacific Bell residential access lines with Pacific Bell long distance | 1,626,822 | 1,983,263 | 2,351,684 | 2,732,423 | 3,125,830 | $x=w*(1+g) + x^{(t-1)}$ |
| Pacific Bell long distance market share in Pacific Bell territory, EOY | **14.13%** | **16.77%** | **19.38%** | **21.93%** | **24.44%** | y = x/n |
| Pacific Bell local market share in Pacific Bell territory, EOY | **20.75%** | **20.75%** | **20.75%** | **20.75%** | **20.75%** | z |

| Scenario 4 Inputs : Local Share Decreases by Amount Sufficient to Produce 24.4% LD Share after 5 Years | | | |
|---|---|---|---|
| | **Data Value** | **Source** | **Line** |
| Pacific Bell residential lines, Year 1 | 10,979,183 | Pacific Bell residential access lines (Tebeau Affidavit, Table 5) | a |
| Competitor residential lines, Year 1 | 537,482 | Competitor residential lines (Tebeau Affidavit, Table 1; Attachment A, Item 14). | b |
| Total residential lines in Pacific Bell territory - Year 1 | 11,516,665 | | c = a + b |
| Pacific Bell residential market share in Pacific Bell territory, Year 1 | 95.33% | | d = a / c |
| Annual Growth in Pacific Bell residential market share in Pacific Bell territory | 0.00% | | e |
| Annual growth in residential lines in Pacific Bell territory | 2.66% | Average annual growth in residential access lines in CA (1997-2000 ARMIS Report 43-08: Table III) | f |
| Percentage of households with additional lines | 28.90% | FCC, Industry Analysis Division, Trends in Telephone Service, August 2001, Table 8.4. | g |
| Local residential inward movement | 17% | U.S Census Bureau, American Housing Survey for the United States in 1999, Table 2.9. | h |
| Percentage of inward residential customer orders where customers accept ILEC long distance service on the initial contact | 82.35% | Based upon Verizon - New York's end of year long distance market share (20%). | i |
| Primary Interexchange Carrier (PIC) change rate | 30% | News Release, J.D. Powers and Associates Reports: Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction, July 29, 1999. | i = (.2-(j*k))/h |
| Percentage of PIC change going to ILEC, Year 1 | 20% | Conservative estimate for year 1. In future years, the ILEC's share of PIC changes is its share of Pacific Bell's share of the long distance market. | k |

# Attachment 7:

# Papers and regulatory decisions addressing structural separation

ECONOMICS AND TECHNOLOGY, INC.